

MEETING  
BEFORE THE  
CALIFORNIA ENERGY RESOURCES CONSERVATION  
AND DEVELOPMENT COMMISSION

In the Matter of:	)	Docket No. 01-FER-1
	)	
Federal Energy Regulatory	)	Natural Gas
Commission Meeting	)	Transportation
	)	Infrastructure
-----	)	

CALIFORNIA ENERGY COMMISSION

HEARING ROOM A

1516 NINTH STREET

SACRAMENTO, CALIFORNIA

MONDAY, JUNE 25, 2001

3:30 P.M.

Reported by:  
Valorie Phillips  
Contract No. 150-99-001

PETERS SHORTHAND REPORTING CORPORATION (916) 362-2345

COMMISSIONERS PRESENT

Michal Moore, Presiding Member

STAFF PRESENT

W. William Wood, Jr., Chief Natural Gas Forecaster

ALSO PRESENT

Pat Wood, Commissioner, Federal Energy Regulatory  
Commission

Nora Brownell, Commissioner, Federal Energy  
Regulatory Commission

Cynthia Marlette, Deputy Chief Counsel, Federal  
Energy Regulatory Commission

Robert McNally, Special Assistant to the President  
for Economic Policy  
National Economic Council

Loretta Lynch, President, California Public  
Utilities Commission

Trina Horner, Advisor, California Public Utilities  
Commission

Richard A. Myers, Program and Project Supervisor  
California Public Utilities Commission

Kip Wiley, Principal Consultant  
California Senate Office of Research

Anna Ferrera, Consultant  
California Senate Office of Research

Lawrence Lingbloom, Senior Consultant  
California Senate Energy Utilities and  
Communications Committee

Daniel F. Thomas, Director  
Pacific Gas and Electric Company

ALSO PRESENT

Philip H. Davies, Vice President and  
General Counsel  
Wild Goose Storage, Inc.

Michael B. Day, Attorney  
Goodin, MacBride, Squeri, Ritchie and Day, LLP

Ron Walter, Senior Vice President  
Calpine Corporation

Craig Chancellor, Gas Regulatory Manager  
Calpine Corporation

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1 P R O C E E D I N G S

2 3:30 p.m.

3 PRESIDING MEMBER MOORE: Good afternoon,  
4 Commissioner Wood, Commissioner Brownell, I'm  
5 Michal Moore, Commissioner here at the Energy  
6 Commission. And it's my absolute great pleasure  
7 to welcome you to Sacramento and to California,  
8 and to say how happy we are to have you on the  
9 FERC, well, I'd better say Federal Energy  
10 Regulatory Commission. I'm forcing people here to  
11 join the NAP -- no acronyms, please -- Club.

12 (Laughter.)

13 PRESIDING MEMBER MOORE: And so I have  
14 to join it, myself, and make sure that I use as  
15 few of those as possible.

16 COMMISSIONER BROWNELL: You're better  
17 than the telecommunications community any day.

18 PRESIDING MEMBER MOORE: Well, I want to  
19 welcome you here, and I understand that you have a  
20 pretty schedule trying to meet with the  
21 Legislative Representatives and other key  
22 individuals in the state.

23 And I say, welcome. We're going to  
24 discuss gas matters today. And I hope that our  
25 presentations that we've organized will prove

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1       informative for you and will allow you to ask the  
2       kind of questions you need to ask and gain access  
3       to information for the future that will make the  
4       job a little bit easier.

5               First, I would like to say that we  
6       issued a report out of the Committee that I chair,  
7       which is the Electricity and Natural Gas Committee  
8       here. And it is that report that we'll use in my  
9       remarks to frame some of the gas issues facing the  
10      State of California.

11             It is a staff report and I am privileged  
12      to have some of the best staff in the world to  
13      support me in this. It is a public document.  
14      It's been out. It's available on the web. And I  
15      know that we have a number of people who are  
16      listening in on the worldwide web to this, and I  
17      want to make sure that they know they can have  
18      access to that in an html or acrobat format, just  
19      by going on our website.

20             The report was prepared with a lot of  
21      time and expertise, and I want to acknowledge one  
22      of the key staff members who produced it who is  
23      here with me, Bill Wood, who has 25 years  
24      experience with the Commission and whose insight  
25      allowed us to have some continuity between the



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1       1989 report, which I'll reference in my remarks,  
2       and the current report, which elaborated on some  
3       of the in-state capacity problems.

4               And I just want to say without Bill  
5       there wouldn't be a report. I'm not going to say  
6       there wouldn't be a Committee, because I'd still  
7       be on it. But I probably wouldn't have very many  
8       facts to offer.

9               The report, by the way, has not been  
10       vetted by the full Commission and is used here  
11       really under the auspices of my own office and the  
12       Committee. So I want to make sure that it's clear  
13       to everyone here that this is not an Energy  
14       Commission-sponsored report or set of conclusions.  
15       It won't be until we have had a chance to work in  
16       the comments that have come to us, including  
17       comments that were submitted by your Commission  
18       under the letterhead of your Chairman, which we  
19       received formally this morning.

20              The report came about because of a  
21       change in conditions. We obviously enjoyed excess  
22       capacity in the mid to late '90s, and they  
23       contributed to low natural gas prices in the  
24       state. Clearly, that's changed.

25              And I would say that we're now

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1       reappraising ourselves of the model that we've  
2       used, of the calculus that we've undertaken to try  
3       and understand how gas works in the state, what  
4       its role is.

5               And we have one slide that illustrates  
6       just the system. It will come up on your screen  
7       in front of you -- well, along with a lot of  
8       Microsoft products.

9               (Laughter.)

10              PRESIDING MEMBER MOORE: -- on the  
11       screen. I apologize, there should --

12              COMMISSIONER BROWNELL: We're liking the  
13       high tech world of California.

14              PRESIDING MEMBER MOORE: Welcome to  
15       Silicon Valley, Sacramento.

16              Let me just say, there's a map, and it  
17       illustrates the gas system in California. And  
18       you're undoubtedly familiar with it.

19              The system, itself, was built on a  
20       single coldest day model. It's designed much like  
21       you would have expected from the Macy's parking  
22       lot. They built parking to look at the day after  
23       Thanksgiving load.

24              And we've had some changes since that  
25       model was first developed in the state. That

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1        model bets on probabilities. You can understand  
2        that in any given year a probability of one in 75  
3        that you might have a drought; a probability of  
4        one in 50 that you might have a very very hot  
5        year, coupled with other shortages in the system,  
6        might produce massive shortages overall.

7                Frankly, when the probabilities  
8        coalesce, which at some point they will, you blow  
9        out the model. And we've had that happen, which  
10       has caused us to start to rethink how we look at  
11       gas, how we look at the other elements in the  
12       energy world.

13               We've had a convergence of the gas and  
14       energy worlds, and that convergence is producing  
15       unprecedented conditions that we're trying to deal  
16       with, not only in the planning arena, but in the  
17       regulatory, and frankly in the physical and  
18       financial arena, as well.

19               One of the fallout pieces of this is the  
20       concern over all the gas plants that we're siting  
21       in California, over 11,000 megawatts this year.  
22       And growing to meet future demand, and growing to  
23       meet our demand for backup capacity, and to retire  
24       some of the old generation that is inefficient  
25       and, frankly, isn't going to meet all the needs.

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1                   You know what, why don't we stop. Let's  
2 stop. You can get it ready for Cindy's  
3 presentation -- I'm sorry, for Trina's  
4 presentation. But let's just stop.

5                   In terms of in-state and California  
6 supply, I want to say that we're active with the  
7 Legislature. We're trying to play a very  
8 proactive role with the PUC, Public Utilities  
9 Commission, and the utilities.

10                  And we can point with pride to an  
11 expansion of in-state facilities that's now going  
12 on. And identify some other problems that we'll  
13 have to deal with in the future, but really  
14 looking at them as opportunities.

15                  The low Btu problem, which you're  
16 familiar with, presents a new market opportunity,  
17 frankly, that some of the generators are poised to  
18 take advantage of.

19                  The gathering system that needs to be  
20 updated; been a problem for northern California.  
21 And presents an opportunity for a transfer to  
22 producers who can take advantage of it and have an  
23 incentive to hook up to wells that are further  
24 afield than they might have been in the past.

25                  In the interstate capacity arena, the



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1 market is clearly responding. The price signals  
2 are working; the market is working; and the  
3 response is leading us where we need to go.

4 In the intrastate arena we've had, as  
5 you read in our report, inadequate receipt  
6 capacity. So even though you can see Sempra, in  
7 the past, raising average capacity by 375 million,  
8 it's clearly lagging behind what we would have  
9 expected at this time.

10 And we're catching up, but there has  
11 been a problem that I think, at least in part,  
12 many of us were slow to recognize. And that  
13 includes me and the Commission, as well as some of  
14 the private players.

15 As Bill Wood, who I referred to earlier,  
16 is fond of saying, and one of his most quotable  
17 quotes, "Pipe's cheap and gas is expensive." And  
18 we're perhaps slow to catch up to that.

19 In storage there's better news. The  
20 near term is that we're filling at historic rates,  
21 currently with no deficit. In the long term the  
22 intrastate has to be coordinated, and if there's  
23 any message that's coming out clearer and clearer,  
24 we've got to coordinate with the interstate  
25 capacity increases to make a difference.

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1                   In conclusion I might just say that as  
2                   you saw in our report, you can see that the  
3                   electricity and natural gas systems and demand are  
4                   inextricably linked. You don't have a crisis in  
5                   one without some corresponding impact in the  
6                   other.

7                   And you can find ample evidence for that  
8                   by looking back at last summer and last winter  
9                   when storage was strained due to high electric  
10                  generation demand. And it's coupled with  
11                  increased dependence on an electric world.

12                 That points up another issue that at  
13                 least has to be addressed in the long term, and  
14                 that is that we are creating, by design, a natural  
15                 gas monoculture. And that brings with it its own  
16                 risks and the issue of diversity will rise up and  
17                 be something that we'll need to face in the  
18                 future.

19                 Of the 50 or so plants that have been  
20                 sited or permitted in the west, every single one  
21                 is natural gas fired.

22                 There's risk in all of this. And for an  
23                 economist, the risk is at least a calculable  
24                 event, but it's not always readily one hundred  
25                 percent definable.

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1       at the Energy Commission we're undertaking  
2       comprehensive risk analysis, infrastructure  
3       planning, if you will, to simulate the response of  
4       the system to changes in market and environmental  
5       conditions.

6               And we hope to use that planning process  
7       to become a critical link in the overall  
8       regulatory system.

9               Frankly, without a fundamental change in  
10       infrastructure planning, there won't be anything  
11       that prevents high prices from occurring again and  
12       again and again in the future, and that very  
13       predictable.

14              The Committee, as I said, will  
15       ultimately pass this on to our full Commission.  
16       And we will then take all the comments that we got  
17       in public hearings, including those from your  
18       Commission, into account. We'll publish a final  
19       report.

20              And then we'll undertake the risk  
21       analysis as the next step in our process. And  
22       hope to work very very closely with you and your  
23       staff in that next step.

24              And, Commissioners, with your  
25       permission, and you may have questions on the



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1 report or some of this, but if I may, with your  
2 indulgence, I'd like to introduce the President of  
3 the Public Utilities Commission, who would like to  
4 introduce one of her staff to talk about their  
5 role in this ongoing process.

6 Ms. Lynch.

7 COMMISSIONER LYNCH: Thank you. Thank  
8 you, Commissioner Wood and Commissioner Brownell.

9 We really appreciate you being here to  
10 get an update about where California is in our  
11 process of solving our problems and working with  
12 you to reform the system.

13 As we have talked before, California  
14 really has turned a corner and is doing everything  
15 possible to both expand supply on the electricity  
16 side, as well as on the natural gas side.

17 And the Public Utilities Commission  
18 really has changed direction in terms of an active  
19 role of both encouraging storage, as well as more  
20 capacity, on the intrastate lines.

21 It's really a question, from my  
22 perspective, leaving aside some of the complaints  
23 that we have before you about particular activity,  
24 it's really a question of the grasshopper and the  
25 ant. And how we prepare for our capacity needs.

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1                   And what I'd like to do is introduce my  
2                   natural gas Advisor, Trina Horner, who has just a  
3                   very short little presentation, which is an update  
4                   of what the PUC has done in conjunction with the  
5                   state, over the last year, to be the ant and not  
6                   the grasshopper, and prepare for next winter.

7                   MS. HORNER:   Good afternoon.   I just  
8                   have a few details to follow up on Commissioner  
9                   Lynch's introduction about ways that California is  
10                  trying to be productive and proactive on insuring  
11                  that we can meet our natural gas capacity needs,  
12                  both on the pipeline capacity and the storage  
13                  capacity side.

14                  And I have a presentation which is on  
15                  the screen, but also I have a few just reference  
16                  materials.   One of which is a list of all of the  
17                  PUC dockets that might be handy for you to refer  
18                  to back to.   And that kind of shows you the  
19                  different proceedings, and what we're doing where.

20                  I've been working at the PUC mostly on  
21                  natural gas issues for about nine years.   And  
22                  generally have participated on the FERC side, but  
23                  have also participated in our active regulation of  
24                  the intrastate facilities.

25                  And in that sense, the PUC for

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1 California focuses on three main things. We  
2 regulate the local distribution and local  
3 transmission of natural gas, including  
4 procurement.

5 We also regulate the intrastate pipeline  
6 per the Hinshaw amendment to the Natural Gas Act.

7 And, finally, we oversee the  
8 interconnection of in-state production and  
9 gathering of natural gas.

10 We also, as you know, are active in  
11 representing the State of California in  
12 proceedings at your Commission.

13 I think Commissioner Moore pretty  
14 accurately described the different trends in  
15 California that we've noticed, especially during  
16 the last year. And that is the changing supply  
17 and demand swings from what we're historically  
18 used to, and there being more than one peak on the  
19 system now.

20 We've also seen, as you're aware,  
21 extremely high prices just out of the range of  
22 sanity, almost. And so we've really been  
23 struggling to find a way to manage that. And we  
24 really think that the way to do that is to add  
25 more capacity to the state.

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1                   And so in the next couple of slides I've  
2                   got some details about what the California PUC has  
3                   been doing to insure that.

4                   First, we've been increasingly focusing  
5                   on the ways that electricity and natural gas  
6                   interact in the California market. And we've been  
7                   taking a look at a number of our policies.

8                   For example, one is to look at the  
9                   natural gas storage needs and capacity needs of  
10                  the electric generators who are no longer owned by  
11                  the utilities, and who don't do their planning  
12                  anymore in a more coherent fashion to maximize the  
13                  intrastate system.

14                  And so in California we have  
15                  historically unbundled from the larger users  
16                  transportation rates elements like storage. And  
17                  we are looking now to see if we need to be  
18                  reconsidering that. Because electric generators  
19                  and their use of storage, as we increasingly saw  
20                  last winter and this spring, have a very  
21                  important -- their use of storage has a very  
22                  important impact on the pipeline system.

23                  Another thing that we're doing is we're  
24                  modifying our existing curtailment policies for  
25                  natural gas to basically be cognizant of the fact



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1       that electricity reliability is a key concern for  
2       California. So we're taking a look at the  
3       generators' spot in the curtailment queue.

4               Another area we're focusing on is trying  
5       to beef up our in-state capacity. And we're doing  
6       that on a whole host of fronts. For example,  
7       we're working to be sure that our own in-state  
8       tariffs and policies are friendly to competition  
9       and don't prohibit competition from the interstate  
10      pipelines.

11             And right now we're working in  
12      particular on the SoCalGas side to look at getting  
13      rid of a tariff that we believe has been  
14      prohibiting competition into the SoCalGas  
15      territory. And I think once that tariff is  
16      reformed, we hope to see an inflow of interstate  
17      pipelines into southern California.

18             COMMISSIONER WOOD: Is that the RLS  
19      issue?

20             MS. HORNER: That's the RLS issue.  
21      We're also working very hard with Southern  
22      California Gas, in particular, to bring on line  
23      additional capacity on that system. And by the  
24      end of this year we expect that they will have  
25      just about 450 million cubic feet per day

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1 additional, mostly through compression, brought on  
2 line. And some of that is already on line,  
3 serving the San Diego system, which was  
4 constrained last year.

5 We're also looking at redefining the  
6 criteria for what is a constraint on local  
7 transmission. Because, as new load comes onto the  
8 utility systems, increasing backbone capacity is  
9 one thing, but it's also going to be important for  
10 users who are not located right off the backbone,  
11 but are either on the distribution system or on  
12 the local transmission part, the smaller pieces of  
13 pipe, that they still be able to get gas to their  
14 facilities.

15 And so as new users come and tap into  
16 the local transmission system, we're going to be  
17 taking a look at that, as well.

18 The next slide shows how the PUC has  
19 been working with SoCalGas on some of those  
20 compression projects that I discussed. Not all of  
21 those are compression. A couple of them, like the  
22 Kramer Junction Project, as well as the Line 6900,  
23 are also getting pipe into the ground.

24 And so we're really trying to look at  
25 the quickest way to add capacity. And I think

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1       these expansions that we're getting on line by the  
2       end of this year are our effort to look at where  
3       was the quickest way to get new capacity on line.

4               And all of those together really tried  
5       to maximize our supply diversity. So we're not  
6       just expanding in one spot. We're really trying  
7       to expand in places not only just to add capacity  
8       to the system, but to do that strategically so we  
9       keep our options open on supply basins.

10              COMMISSIONER WOOD: To follow up on  
11       that, I mean from looking at the map of where  
12       these are, this would seem to be a southern  
13       California issue. But, is there an ability to  
14       move gas from your Canadian sources on down  
15       through the state, all the way to the south?

16              Or does Canadian gas stay kind of north  
17       of Bakersfield, or not Bakersfield, but just kind  
18       of a mid part of the state, and then -- or is  
19       there an ability to move gas totally within the  
20       state?

21              MS. HORNER: There is an ability to move  
22       gas, Canadian gas, all the way to southern  
23       California. And one of the expansions that you  
24       see here, the 85 million a day at Wheeler Ridge --  
25       Wheeler Ridge is one of the points where Canadian

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1 gas is brought down through the state. That's a  
2 major interconnection point in California.

3 So as I said, the items in the first  
4 bullet are really what we're looking at to quickly  
5 beef up capacity in California. But we're looking  
6 beyond that. And we've got a number of projects  
7 that we're very optimistic about, going beyond  
8 into next year.

9 PG&E, for example, is in the midst of  
10 putting together an open season for additional  
11 capacity on its system to bring in Canadian gas.  
12 And we are working with SoCalGas to identify more  
13 projects to expand capacity on their system.

14 In addition to that we're not focusing  
15 just on pipeline capacity, but on storage. And  
16 just last week, Wild Goose filed to expand their  
17 system. I'm sure they'll be happy to tell you  
18 about that.

19 And we're very actively following all of  
20 the interstate pipeline proposals. And are  
21 talking with folks and willing to work in terms  
22 of, you know, removing barriers to getting  
23 interstate pipelines into California.

24 As I said earlier, removing the RLS  
25 tariff on SoCalGas, I think, will be a big step in



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1 know, a lot of these pipelines, then the PGT  
2 pipeline coming in from Canada is another example.  
3 They come from producing basins that are not right  
4 next to California.

5 And so as generation projects go all  
6 around in the western United States, they get a  
7 fair chance to bid for capacity and to take  
8 capacity that wouldn't necessarily, you know, come  
9 all the way to California.

10 But I think that we want a fair chance,  
11 and we have a fair chance, California end users,  
12 to bid for that capacity. That's, I think, our  
13 main goal, is to insure that we have a fair  
14 opportunity to bid for that capacity in the open  
15 seasons that you oversee.

16 COMMISSIONER WOOD: Kind of the big  
17 picture, the actions that you've talked about,  
18 that Commissioner Moore's report discusses, that  
19 the Federal Commission has taken to kind of make  
20 the two parts of the pipe flange together, how  
21 close are we to having what I think the CEC report  
22 characterized as slack capacity, how close are we  
23 to having that to handle a big summer like we had  
24 last year, and a big winter like we had last year,  
25 assuming that that continues into the future?

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1 I mean just kind of are we there yet?  
2 And if not, when are we going to get there? Any  
3 kind of thoughts on that?

4 COMMISSIONER LYNCH: I would note,  
5 though, that we didn't have really that much more  
6 of a big summer last year than we had the summer  
7 before.

8 When you look at the demand curves we  
9 bought about the same amount of natural gas in  
10 2000 than we did in 1999. It just cost us 80  
11 percent more.

12 So, I think that there's a misnomer here  
13 that we have this vastly expanding supply. We  
14 will, as Governor Davis brings more plants on  
15 line. But last summer we did not have, you know,  
16 significant additional plant capacity that was  
17 using natural gas on line.

18 And when you look at just the volumes,  
19 they were essentially equivalent. It was really a  
20 pricing issue, from my perspective, last year.  
21 And perhaps a flow-through issue about who was  
22 holding back capacity.

23 But, in terms of building it out in  
24 California, I think that the next two years are  
25 going to really tell the tale. And we are pulling

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1 out all the stops to build as much as possible in  
2 the next two years.

3 But as much capacity in storage as  
4 possible will not solve the pricing problem  
5 without effective enforcement.

6 COMMISSIONER WOOD: So I guess kind of  
7 looking back at the kind of philosophy we're  
8 taking on electricity, too, that once there's some  
9 excess in the market then there's some room for  
10 competition to start to actually compete, because  
11 people can't lay out of the market and think  
12 they're going to affect it. They'll just be  
13 forgotten because somebody else will come take the  
14 spot.

15 And I guess the same would hold true  
16 certainly on over-building the gas delivery system  
17 slightly.

18 COMMISSIONER LYNCH: And effective  
19 conservation and energy efficiency efforts on the  
20 gas side, as well.

21 COMMISSIONER WOOD: Which dampens down  
22 the -- right.

23 COMMISSIONER LYNCH: Right, dampens down  
24 demand. A chunk of our public goods charge moneys  
25 go to gas energy efficiency, as well as



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1       electricity energy efficiency, so that we can  
2       continue and hopefully overtake Rhode Island as  
3       the most efficient state in the nation, both on  
4       gas as well as electricity.

5               So we are, you know, we are pursuing  
6       that multi-pronged strategy, as well as a  
7       renewable strategy, whereas if we get additional  
8       capacity on line from renewables, they'll have  
9       some competition with some of the gas-fired  
10      electricity generation, at least.

11             So we really see it as a three-pronged  
12      approach. Energy efficiency and conservation; a  
13      diversity of fuel supply for the electric  
14      generator market; and then, of course, additional  
15      capacity.

16             But all of those tie into what is the  
17      price.

18             COMMISSIONER WOOD: And so just back to  
19      that interesting fact, the usage of natural gas in  
20      California in the summer of 2000 was roughly at  
21      par with what it had been for the prior few  
22      summers?

23             COMMISSIONER LYNCH: The usage of  
24      natural gas in 2000, as a whole, was roughly at  
25      par with the usage of natural gas in California in

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1       1999. We can get you the exact figures. But it's  
2       pretty --

3               COMMISSIONER WOOD: Okay, that's good  
4       information to have.

5               COMMISSIONER LYNCH: It's pretty clear.  
6       Yeah. And we are all anticipating a significant  
7       expanded growth as these new gas-fired plants come  
8       on line. But in 2000 California operated with the  
9       same physical plant, by and large, in terms of the  
10      large plants, as they had for the last 30 years.

11              COMMISSIONER BROWNELL: Could I ask,  
12      there seems to be consensus on the need for  
13      additional infrastructure and additional supplies  
14      based on your projections of these new plants  
15      coming on line.

16              SoCal would seem to suggest that, in  
17      fact, there is not an increased need; that that  
18      need will diminish as more efficient plants come  
19      on. And I'm wondering -- and apparently some  
20      reference to reliance on plants being built out of  
21      the state, in Arizona, perhaps, it wasn't  
22      specific.

23              One, that seemed to be counter to the  
24      policy that California was pursuing, which was to  
25      be less dependent on imports. And, two, I

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1       wondered how you reconcile that kind of an opinion  
2       and whether that's consistent -- doesn't seem to  
3       be consistent with where you're going or where  
4       Commissioner Moore is suggesting that we go.

5               COMMISSIONER LYNCH: Well, I think it is  
6       true that the newer the plant the more efficient  
7       the plant. And so if you're essentially switching  
8       out an old inefficient natural gas plant for a new  
9       efficient one, then theoretically you wouldn't  
10      have to use that.

11             But for the next several years  
12      California is going to need all the supply it has,  
13      whether it's old or new, borrowed or blue, we're  
14      going to need it all.

15             So, from my perspective we should be so  
16      lucky to have an overbuilding in natural gas at  
17      this point. And I think we can deal with those  
18      issues if there are any in the future. But I do  
19      think that that does show the need for the state  
20      and the federal government to work together to  
21      carefully monitor not only what's happening in  
22      California, but what's happening in the west, so  
23      that we make sure that, from our perspective,  
24      California can be sufficiently energy independent,  
25      but from a western region perspective we make sure

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1       that there's not too much over-building, if we can  
2       imagine that day.

3               But we know from history that that day  
4       has come before. It will come again. And we just  
5       need to be more active, as governments, to shape  
6       that supply scenario, I think.

7               PRESIDING MEMBER MOORE: Commissioners,  
8       maybe I can amplify on that a little bit. Bill  
9       Wood has been looking at that for us, and maybe we  
10      can amplify on what Commissioner Lynch has just  
11      said.

12              Bill, can I ask you to address some of  
13      those, the question on the Sempra statement that  
14      was made in our hearing about excess capacity?

15              COMMISSIONER WOOD: It's referred to on  
16      43 and 44 of your report, too.

17              MR. WOOD: My name is Bill Wood; I'm the  
18      Chief Natural Gas Forecaster here at the Energy  
19      Commission.

20              In essence Sempra has indicated that  
21      they have designed their system to meet an average  
22      peak day, or an average year requirement, and that  
23      under the present pipeline situation that they  
24      have, that they're able to meet their gas demand  
25      without adding any additional capacity onto their



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12                   We were seeing gas demand in power  
13           generation this winter in the area that you would  
14           anticipate seeing in August, rather than in  
15           winter. And on top of that, then November was one  
16           of our colder months in history.

25 SoCalGas has agreed to move forward, and

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1       to add at least 375 million cubic feet per day of  
2       receiving capacity into their system. And that  
3       that will be operational by this coming winter, as  
4       Trina has indicated.

5               An addition, they're also adding some  
6       more storage availability into their system, which  
7       will be available as soon as the PUC has agreed to  
8       those two projects that they have going. One is  
9       the abandonment of the Montebello facility, and  
10      the other is a shifting of some cushion gas from  
11      Aliso Canyon and La Goleta to working gas.

12             Those two systems will immediately put  
13      in between 24 -- well, one of them will provide 14  
14      billion cubic feet per day, or billion cubic feet  
15      of additional available storage in basin already.  
16      Doesn't have to come across the barrier, or across  
17      the system, it's already there.

18             And then at Montebello there's at least  
19      10 billion cubic feet that could be brought in  
20      quickly. And there's a total of 24 billion cubic  
21      feet.

22             So when you put all this together, plus  
23      SoCalGas is way ahead on where we anticipated they  
24      would be for putting gas in storage this year,  
25      things are looking very good for SoCal.

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18                   But, again, they will then have time  
19       during September, October, to recoup any gas they  
20       need to pull out of storage.

25 Can those be -- when you talk about kind

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1 of topping off the storage system for SoCalGas,  
2 does that include that that capacity would also be  
3 filled up?

4 MS. HORNER: I think I can answer that.  
5 Under PUC rules, SoCalGas needs to have about 70  
6 billion cubic feet of gas injected into storage  
7 for their core customers. Those are the customers  
8 that they buy gas for.

9 And the remaining 35 Bcf of capacity  
10 that they have is available to noncore customers.  
11 And they're very close, as Bill said, to filling,  
12 to meeting the 70 Bcf requirement right now.

13 And as I mentioned earlier, a number of  
14 years ago the state made available to some of the  
15 noncore customers, including electric generators,  
16 the ability to, you know, manage their own  
17 storage. So they don't have an amount of storage  
18 that's assigned to them that they have to fill,  
19 like the core does.

20 And so that is one of the things we're  
21 looking at, is they have that flexibility. But  
22 it's an asset that we want to be sure that they  
23 use. Because, as we have now seen, it really  
24 helps the state, not just from a gas perspective,  
25 from an electricity reliability perspective, if



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1 noncore customers, as well as core customers, have  
2 some gas in the ground for when they're really  
3 going to need it.

4 COMMISSIONER WOOD: Does SoCalGas have  
5 the ability or have the tariff authority to allow  
6 another party to interrupt, or to have secondary  
7 rights to store if it's not being used by the  
8 primary rights holder? Like interruptible storage  
9 service, or -- so in other words, we can get it  
10 filled by somebody.

11 And then if the firm rights holder,  
12 whether that's an electric generator or some other  
13 noncore customer comes in and uses it, then that  
14 would just displace that interruptible person who  
15 parked his gas there for a month or two, or week  
16 or two.

17 Is that -- I know we've got some firm  
18 tariffs that do that on interstate storage. I was  
19 wondering if that was available under the SoCalGas  
20 tariffs.

21 COMMISSIONER LYNCH: We're certainly  
22 analyzing that question.

23 COMMISSIONER WOOD: Okay, I mean I know  
24 you and I have talked about that before. And kind  
25 of like, if you're going to squat on your rights

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1       and somebody else might use them, because you're  
2       right, that storage is a very valuable resource  
3       and can be --

4               MS. HORNER:   Exactly, and we have been  
5       encouraging SoCalGas to use their capacity in a  
6       way that they can just maximize it.   So, you know,  
7       I don't think they're going to stop when they get  
8       to 70.

9               And they do have the ability, under  
10       their tariffs, to sell gas to noncore users  
11       through hub services, basically.   And they do that  
12       all the time.

13              But what we saw last winter was that  
14       going into the winter season they sold quite a bit  
15       of gas, of stored gas, through hub services to  
16       noncore users.   And then they ended up entering  
17       the winter with a bit less gas than historically  
18       they would.   And that's a situation we'd like to  
19       avoid again.

20              So, that's why we hope they won't stop  
21       at 70.

22              COMMISSIONER LYNCH:   And that compounded  
23       by a lot of the noncore customers last winter  
24       requested core elect treatment when the gas price  
25       rose so high, including some of the cities that

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1           were caught unaware and had to cut city services.

2                       So, that was something that I think the  
3           noncore customers hadn't bet on, and I'm hoping  
4           that the noncore customers are going to be taking  
5           a look at their options. But doing that in real  
6           time, rather than in planned time, is really the  
7           problem there.

8                       And so looking at the whole picture,  
9           both core and noncore, we would hope to work with  
10          the FERC on making sure that there's enough for  
11          everyone. Because we can certainly expand our  
12          system and work with the utilities to cover the  
13          core.

14                      But then, for some of those key noncore  
15          customers, especially the electric generators, I  
16          really think we're going to need some federal/  
17          state cooperation.

18                      COMMISSIONER WOOD: And that really  
19          would reach to their ability to get from the  
20          California border up the interstate pipelines to a  
21          gas source like San Juan or Baja, or one of the  
22          hubs?

23                      COMMISSIONER LYNCH: It could be that,  
24          and it could be providing appropriate  
25          encouragement in terms of hedging strategies.

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1 MS. HORNER: I have just one final slide  
2 that I won't go through all the points. It's  
3 basically some facts about what we're all -- we're  
4 trying to do to maximize our resources in-state.  
5 Some of which Bill touched upon, in our own gas  
6 production and our own stored gas.

7 But, Commissioner Wood, you had  
8 mentioned earlier what can the FERC do. And we  
9 appreciate your fast action and your commitment to  
10 look quickly at new interstate pipelines serving  
11 California, and as you know, we're actively  
12 participating in a couple of cases before your  
13 agency.

14 But, one thing I think that you can do  
15 is to help us have access to information, as well.  
16 We're looking forward to working with you and  
17 getting information about what's going on on the  
18 interstate pipelines. I think that will help, if  
19 we work in partnership to look at that  
20 information.

21 That will help us in our planning  
22 efforts, as well, to plan for California's energy  
23 infrastructure.

24 COMMISSIONER WOOD: Well, I certainly am  
25 personally committed to that, and we'll work with



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1       our colleagues at the Commission to get our  
2       partnership back on track, and get going forward  
3       in the matters.

4               It is different with a Hinshaw regulated  
5       state that, you know, we don't really regulate it  
6       right down to the citygate, as we do in Illinois  
7       or Indiana and some other states, to really  
8       balance that jurisdiction with our sister state  
9       agency, so.

10              MS. HORNER:   Yeah, all the more  
11       important to work together.

12              COMMISSIONER WOOD:   Amen.

13              MS. HORNER:   Thank you.

14              COMMISSIONER BROWNELL:   And I think we  
15       appreciate the need to share resources wherever  
16       appropriate and possible.   And frankly, to the  
17       extent that we can ask for information in similar  
18       ways, it reduces the burden on the reporting  
19       business who, after all, have other things that  
20       they need to do than report to agencies.

21              I think it's critically important that  
22       we also commit to, and I know you do and we do, as  
23       well, but respect the confidentiality of some of  
24       the material that are indeed proprietary to  
25       business interests.

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1                   So, we do look forward to enhancing that  
2           partnership.

3                   MS. HORNER:   Great, thank you.

4                   COMMISSIONER LYNCH:   Thank you.

5                   PRESIDING MEMBER MOORE:   Thank you.

6           Commissioners, we've asked some members of the  
7           Legislative Staff to come over and give a very  
8           short briefing on legislative intentions and  
9           directions during the year.

10                   Mr. Wiley, if you'd like to introduce  
11           your colleagues.   They have some presentations  
12           they'd like to make to you.   And then we'll follow  
13           that up with private industry.

14                   MR. WILEY:   Well, welcome, good  
15           afternoon and welcome to California.   I'm Kip  
16           Wiley with the Senate Office of Research.   With me  
17           today is Lawrence Lingbloom with the Senate Energy  
18           Committee, and Anna Ferrera, also with the Senate  
19           Office of Research.

20                   Commissioner Moore asked me to give you  
21           some legislative perspectives on the natural gas  
22           issue.   I have to preface that by saying that we  
23           have 120 members in the Legislature with two  
24           Houses and two Parties.   So this is a sense of the  
25           Legislature's perspective.   It's ever-changing.

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1 I think one of the most --

2 COMMISSIONER BROWNELL: Good hedging  
3 strategy there.

4 MR. WILEY: Yes. I think one of the  
5 most important things that members are dealing  
6 with right now is the issue of price. And it's  
7 been noted by both the PUC and the Energy  
8 Commission.

9 While many members believe the supply  
10 and demand imbalance is part of the reason for  
11 price volatility in California, we have some  
12 members who also believe that there has been some  
13 manipulation of the market, especially at the  
14 southern California border.

15 We understand that the Federal Energy  
16 Regulatory Commission has before it a review of  
17 this issue. And we look forward to your work on  
18 this item.

19 With more than 90 percent of the power  
20 plants coming on line in California over the next  
21 few years being gas fired, it's important to  
22 California that both the Federal Energy Regulatory  
23 Commission and our PUC monitor the natural gas  
24 market in and around California.

25 Where prices are not just and

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1       reasonable, we believe FERC should be able to  
2       respond in an appropriate and timely manner with  
3       various mitigation measures, and where necessary,  
4       or if necessary, order refunds for excessive  
5       pricing.

6               I want to briefly talk to you about some  
7       of the things the Legislature has recently done,  
8       and a couple items maybe on where we might be  
9       going.

10              While the Federal Energy Regulatory  
11       Commission has the sole jurisdiction over  
12       enforcement of just and reasonable wholesale rates  
13       for non-utility providers of natural gas, the  
14       state can play an important role in addressing the  
15       supply and demand imbalance.

16              Just recently, the Legislature adjourned  
17       its first extraordinary session, and passed, and  
18       the Governor signed into law, Senate Bill 6 by the  
19       Senate Pro Tem John Burton, which established a  
20       new State Power Authority to invest in both  
21       electric generation capacity and needed gas  
22       storage and transportation infrastructure.

23              Specifically, with respect to natural  
24       gas, the bill requires the PUC and the Energy  
25       Commission to prepare and submit to the Authority



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1       and the Legislature, a report on necessary  
2       improvements to the state's natural gas storage  
3       and transportation system. And to insure the  
4       provision of adequate seasonably reliable and  
5       competitively priced amounts of natural gas to  
6       consumers.

7               The bill also authorized the Authority  
8       to participate in the financing of those needed  
9       infrastructure improvements. That will go into  
10      effect, I believe, September. So they're gearing  
11      up for it now, and that Authority will be able to  
12      start taking action this coming September.

13             As a hedge against natural gas price  
14      volatility, the Legislature may consider this  
15      year, in the second extraordinary session, the  
16      implementation of a renewable portfolio standard.

17             The goal of the standard would be to  
18      require retail providers of electricity to include  
19      renewable resources in their supply portfolio.  
20      The standard would push the state to a 20 percent  
21      renewable supply by 2010. Today our renewable  
22      resources make up about 12 percent of the state's  
23      supply.

24             While the California PUC approves  
25      storage requirements for gas utilities to serve

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1       core customers, storage requirements for noncore  
2       customers have been deregulated. Perhaps it might  
3       be appropriate for the Federal Energy Regulatory  
4       Commission to work with our Public Utilities  
5       Commission to determine whether storage  
6       requirements might be appropriate for unregulated  
7       generators and suppliers.

8               Because California imports about 85  
9       percent of its natural gas needs, the state must  
10      be cognizant of what has happened to supply and  
11      demand in the regions that our supplies come from.  
12      Perhaps the Federal Energy Regulatory Commission,  
13      in concert with our Energy Commission, could help  
14      California develop a collaborative energy supply  
15      and demand forecasting effort with other western  
16      regional state and Canada and Mexico.

17             Those are some of the items that the  
18      Legislature is looking at and discussing. I think  
19      I'd like to have Mr. Lingbloom talk from the  
20      Committee's perspective.

21             MR. LINGBLOOM: Hi, Commissioners,  
22      welcome. I'm Lawrence Lingbloom; I'm staff to  
23      Senator Debra Bowen, Chairwoman of the Senate  
24      Energy Utilities and Communications Committee.

25             I just wanted to briefly underscore the

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1        extent to which just and reasonable electricity  
2        prices now rely on just and reasonable gas prices.

3                The FERC has adopted an order last week  
4        which appears to eliminate a lot of the potential  
5        loopholes or opportunities for gaming. And that's  
6        very encouraging.

7                At the same time, the effect of the FERC  
8        order on consumers, the extent to which end-use  
9        consumers rates are, in fact, just and reasonable  
10       now relies very heavily on whether the gas indices  
11       that go into the proxy price are accurate and  
12       legitimate, legitimately reflecting the costs that  
13       a marginal unit would pay.

14               And so I wanted to emphasize the  
15       importance of that; and we're encouraged by your  
16       investigations related to gas transportation  
17       issues and addressing some of the potential for  
18       manipulation in that market.

19               And I think we've sort of begun to back  
20       ourselves back to that source and really want to  
21       encourage you to pursue effective oversight of  
22       that issue.

23               COMMISSIONER WOOD: One of the things,  
24       Mr. Lingbloom, that parties have said, not  
25       necessarily me, but people in the Commission

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1       probably before I got there, about the prices at  
2       the border being higher here than elsewhere, is  
3       that that reflects a scarcity rent, or scarcity  
4       premium for the ability to get gas to the end user  
5       in California that doesn't exist in Chicago or  
6       Provo or somewhere else.

7               What's your take on that? I mean  
8       obviously from the points you make you've thought  
9       about this stuff, but how do we -- how do you kind  
10      of pierce through that and make sense of it?

11             MR. LINGBLOOM: Well, I think the  
12      assertion of scarcity rents is tricky, because, of  
13      course, that can be used to excuse any price  
14      charge virtually.

15             I think that we're encouraged by your  
16      statements related to sort of disassembling the  
17      components of the price and going from wellhead  
18      price and then looking at legitimate  
19      transportation costs. And you know, you can  
20      consider take-away capacity and other issues that  
21      are going to produce a legitimate price at the  
22      border.

23             I think first you've got to identify  
24      those components. Then look at what the  
25      legitimate price is. And then make a judgment



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1       asked Mr. Wood -- like your name -- the same  
2       question from the Energy Commission Staff angle,  
3       but do these problems of the price, the scarcity  
4       rent and all that, go away when there's  
5       sufficiency of both inter- and intrastate capacity  
6       and storage?

7               MR. LINGBLOOM: Well, I think that's a  
8       very good question. In theory, they do. And I  
9       think --

10              COMMISSIONER WOOD: Because we don't  
11       really see this anywhere else in the country.  
12       Most everywhere else in the country is perceived  
13       to have at least some slack capacity on their gas  
14       system.

15              Yet we come out here where there's take-  
16       away limitations, as the Commission report has  
17       noted, and you know, tariff issues, as was  
18       reported from folks from the California Commission  
19       that are still being worked through.

20              And I just wondered if those fixes are  
21       in place, and they get resolved in the near  
22       future, should we expect then the price to return  
23       to where it is elsewhere in the country where  
24       there is some slack capacity?

25              MR. LINGBLOOM: Well, to the extent I

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1       can predict the future, I would expect that they  
2       would. Again, it depends on how much of the price  
3       is attributed to those physical issues, as opposed  
4       to artifacts of the market.

5               COMMISSIONER WOOD: Has the Committee  
6       gotten any evidence from other parts of the  
7       country where the artifacts of the market are  
8       still kind of skewing natural gas delivery prices?

9               MR. LINGBLOOM: I don't have anything  
10       specific on that.

11              COMMISSIONER WOOD: I mean I'm looking.  
12       If you all hear them send them my way, because  
13       we -- that's a big issue for us, too. Make sure  
14       that we really have a very competitive natural gas  
15       infrastructure from coast to coast. And right  
16       here is where it ain't working.

17              MR. LINGBLOOM: Yeah, well, I think from  
18       at least a casual review of observed prices around  
19       the country, the southern California border  
20       obviously sticks out as a very huge sore thumb.

21              COMMISSIONER BROWNELL: Thank you.

22              MR. LINGBLOOM: Thank you.

23              COMMISSIONER WOOD: Thanks a lot.

24              COMMISSIONER BROWNELL: I actually just  
25       have -- I thought maybe there was another

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1 presentation. Could you say more about your goal  
2 in renewable energies and what you're doing to  
3 incent that.

4 I know a lot of the public purpose  
5 dollars go towards that. We believe that those  
6 new technologies are really the answer to a lot of  
7 issues.

8 But I'd like to hear about the emergence  
9 of some of those new technologies; what investment  
10 you're seeing, whether by private companies or the  
11 state. And kind of, I think the Governor's even  
12 mentioned you plan to be a showcase for new  
13 technologies. Actually the Pennsylvania Governor  
14 thinks so, too. And I think the Texas Governor  
15 thinks so, too.

16 But we'd like to hear what you're doing.  
17 We're interested in technology, both in terms of  
18 generating capacity, as well as demand side  
19 management.

20 PRESIDING MEMBER MOORE: Well, in terms  
21 of a slow pitch that's a good one for this  
22 Commission because our record in renewable energy  
23 has been stellar.

24 We've put over 1000 megawatts of new  
25 permitted capacity through our renewable program



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1 in every single technology that's out there that  
2 responded to our new auction on line.

3 We've got another 1000 megawatts that  
4 will probably come on line as a result of the next  
5 auction that we're conducting.

6 So, in terms of expanding our capacity,  
7 I would have to say, and I'll preface this by  
8 saying there are at least a couple of different  
9 approaches about whether or not we will need,  
10 should need a portfolio standard.

11 We opted to not have a portfolio  
12 standard. We opted for a market-based solution to  
13 the renewable issue, and it worked. And, frankly,  
14 it is continuing to work.

15 So, if you look at the best technologies  
16 that we've had in performance in California, wind  
17 clearly. It's taking 60 or so percent of the new  
18 dollars that we're generating for investment.

19 Biomass is coming in pretty strongly.  
20 We've got a strong contingent of geothermal with  
21 almost 370 new megawatts coming on in Salton Sea,  
22 a geothermal.

23 So I would say that our ability to  
24 provide an incentive for the market to respond has  
25 been very well received. We are spending, by the

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1 way, we spent \$540 million, or committed that,  
2 over the four-year transition period in the  
3 renewables program.

4 The new investment plan, which was  
5 approved out of my Committee, actually, and  
6 finally the Commission two weeks ago sets aside  
7 \$135 million annually for ten years to provide  
8 incentives for new renewable technology.

9 The Legislature has begun hearing a  
10 request to talk about, and I don't know what  
11 action they'll take, a new renewable portfolio  
12 standard. I'm not sure where the money would come  
13 from for it, but at this point we are using  
14 ratepayer dollars to pay for the existing program  
15 that is run out of this house. And my guess is  
16 that we'd have to find an additional ratepayer  
17 support for it.

18 I don't know that we're going to be able  
19 to exceed the rate that we're bring renewables on  
20 line, but we certainly have seen them as a growing  
21 part. We're at about 12 percent of the total load  
22 in terms of renewables.

23 COMMISSIONER WOOD: So is that 12  
24 percent like on a peak day, 12 percent is coming  
25 from renewables?

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1                   PRESIDING MEMBER MOORE: On a peak day  
2 we can get up to 12 percent of the load if  
3 everything's on line. We have had a tad of a  
4 problem with our QF contracts in the past months,  
5 so there's been -- I think of that as a hiccough,  
6 and I hope that that's what it turns out to be.

7                   But, in the meantime, as we overcome  
8 that, we can have that capability, I think we'll  
9 end up with perhaps 18 percent in the end. It's  
10 probably a reasonable goal at the end of the  
11 program, and probably achievable.

12                  COMMISSIONER BROWNELL: One of the  
13 issues, Michal, that we're talking about at the  
14 FERC and with various states is interconnection  
15 standards.

16                  Some of the new technologies have found  
17 it challenging to respond to that. What's your  
18 experience? Do we need national interconnection  
19 or regional interconnection standards?

20                  PRESIDING MEMBER MOORE: Well,  
21 personally I wouldn't mind a national standard. I  
22 wouldn't mind having the FERC take the lead on  
23 that, and it would make my job a lot easier to  
24 have something like that come down.

25                  Nora, you asked what was my experience

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1       with it. The experience, at least in terms of  
2       trying to get some of the more remote projects on  
3       line, and then have them running, has been just  
4       dismal.

5               If I look out to some of the places  
6       where I would have been able to incent, in fact  
7       made awards to new renewable technologies, only to  
8       have them come back and say, Michal, I can't bring  
9       it on because a) I can't get the interconnect  
10      agreement, or b) the transmission facility that I  
11      want to pipe up to is congested, can't get it  
12      over.

13             In terms of some of the really promising  
14      potential that we've got for cooperation with  
15      Mexico, for instance, our ability is constrained  
16      because of the access lines across the border, and  
17      then frankly, the transfer along the border.

18             So, if we could find a way to  
19      standardize the interconnection standard, it would  
20      take us tremendously forward in renewables.

21             And two, if we can imagine some of the  
22      capacity constraints, and I've mentioned this in  
23      some of my public statements before, I would be  
24      willing to look at using some of the renewable  
25      fund that we control here, and use it as a set-



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1       aside, if what it accomplished was to bring  
2       renewable technologies access into the big lines.

3               So, I'd be willing to change the rules a  
4       little bit as we've seen them now, and provide a  
5       certain portion of the money that we've already  
6       allocated, to pull it back and say, you can get a  
7       bonus for your application if, indeed, you can  
8       show us that this bonus money would allow you to  
9       tie into the bigger lines.

10              So, we've got the opportunity to break  
11       down the monoculture a little bit by using this.  
12       And there may be a response on the legislative  
13       side, I'll be curious to hear, myself, because I  
14       haven't formally heard what they're undertaking on  
15       the RPS side.

16              MS. FERRERA: I would only like to add  
17       that as far as renewables I think the Legislature  
18       is very concerned about trying to see if we can  
19       take lemons and make lemonade out of some of the  
20       horrible things that have happened over the last  
21       year.

22              And I think that one of the things that  
23       we were able to say over time was that this was a  
24       challenge and opportunity. And I think that we  
25       were also looking at renewables.

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1                   Unfortunately, in our concern over  
2                   keeping the lights on and making sure that we had  
3                   contracts locked up, I think now is the time that  
4                   we're looking at trying to go back maybe with a  
5                   renewable standard to make sure that that's part  
6                   of, an integral part of our portfolio.

7                   And we did renew the public goods charge  
8                   last year. We feel, you know, it was something we  
9                   were very proud of accomplishing for ten years  
10                  going forward. And at this point I think it's  
11                  very important that we take a look at diversifying  
12                  the portfolio for the state.

13                  So, we'll be looking at that.

14                  COMMISSIONER BROWNELL: I would  
15                  encourage you, as I know my colleague would, as  
16                  well, to certainly be looking at renewable  
17                  technologies. But there are a lot of other  
18                  technologies that are going to enhance the  
19                  situation, both in terms of capacity and  
20                  environmental issues, in your state and others.

21                  And the benefit of markets is that those  
22                  new technologies have an opportunity to enter  
23                  quickly.

24                  So, you might want to take a look at  
25                  those, too, because there's lots of exciting

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1 things happening, both in generation and to some  
2 extent in transmission.

3 COMMISSIONER WOOD: And on the demand  
4 reduction side. I mean certainly --

5 COMMISSIONER BROWNELL: Right.

6 COMMISSIONER WOOD: -- your state's  
7 taken a worldwide lead on that, and I'm impressed  
8 with that.

9 One of the things that kind of on point,  
10 California was going so strongly toward a very pro  
11 distributed generation, small scale, even  
12 microturbines policy before I think we all got  
13 distracted on really the events of last summer,  
14 and I, in my former job, got a chance to really  
15 work closely with the people that helped develop a  
16 lot of what California got on DG.

17 And would hope to see you all get back  
18 in the saddle on that effort. Because when she  
19 talks new technologies, that's I think are these  
20 small scale new generation plants that really  
21 decentralize the market power, and the power power  
22 of the current generation fleet.

23 So, it's a real silver bullet for  
24 everybody in this country.

25 MS. FERRERA: I agree. I think

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9 COMMISSIONER WOOD: Keep up the good  
10 work.

18                   And I'm going to ask them to spend about  
19       ten minutes apiece with you. And then,  
20       Commissioner, I'm going to turn it back to you,  
21       and obviously what you choose to do at that point  
22       is certainly --

25 PRESIDING MEMBER MOORE: No, au contraire.



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1                   COMMISSIONER BROWNELL: Or maybe we can  
2                   come back and continue the dialogue.

3                   PRESIDING MEMBER MOORE: We'll have you  
4                   back for as many forums as you can stand.

5                   Dan Thomas is here from PG&E, and I'm  
6                   going to ask Dan to make a presentation for you.  
7                   And he will be followed by Phil Davies and Michael  
8                   Day with the Wild Goose Storage Facility. And Ron  
9                   Walter and Craig Chancellor from Calpine will wrap  
10                  it up.

11                  So, Dan, the floor is yours.

12                  MR. THOMAS: Thank you. This is a  
13                  rather lengthy presentation but I'll just do  
14                  selected slides.

15                  My role at PG&E is to basically market  
16                  our transportation and storage services with our  
17                  gas transmission business unit. As well as look  
18                  at the future needs for expansions to insure that  
19                  the customers are served by our system.

20                  If you could turn to page 3, essentially  
21                  the system we operate serves both northern and  
22                  southern California. We do have a significant  
23                  market for Canadian gas that we deliver into -- I  
24                  should say actually California gas, as well, into  
25                  southern California.

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1                   Because of the high prices we've all  
2                   seen that's been actually the most attractive  
3                   market since about last November.

4                   We do operate unbundled system, much  
5                   like FERC. We unbundled it back in 1998 through a  
6                   settlement that we had at the Commission. And  
7                   essentially we do offer the same type of services  
8                   that FERC basically operates, firm transportation  
9                   rights; secondary rights on a system.

10                  And it's to be contrasted with Southern  
11                  California Gas and San Diego. They're currently  
12                  completely bundled. And so we do have two very  
13                  different systems within the state.

14                  And if there is one encouragement I  
15                  would make is that the PUC kind of do unbundle  
16                  that system, as well.

17                  We currently are conducting an open  
18                  season for capacity that we do have. We have  
19                  contracts that expire in 2003, and we're  
20                  conducting an open season to see if people are  
21                  interested in taking contract service for up to 15  
22                  years.

23                  We do have an application in front of  
24                  the Commission to look at the rules right now.  
25                  And as part of that we're also asking customers to

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1       see if they want our system to be expanded from  
2       where it is today. We are actually in the process  
3       of expanding, we call it our Redwood, or the  
4       system we have coming down with Canadian gas, by  
5       roughly 200 million a day. And we're asking  
6       shippers if they want the system to be expanded  
7       further as part of that.

8               And I'll go into some further materials  
9       as we kind of look at the overall picture. If you  
10      turn to page 7, which is the map I think  
11      Commissioner Moore was looking for.

12             And it indicates all the pipelines that  
13      do serve southern California and our system.  
14      We're served by PG&E Northwest, Kern River, El  
15      Paso and Transwestern.

16             If you turn to page 10, just in the  
17      interests of time, and again we do offer a  
18      contract structure just like FERC. And we're  
19      hooked up to the pipelines. We have the same  
20      nomination systems and so we can match basically  
21      nominations each and every day.

22             And we do offer a bit more flexibility  
23      than FERC does, because we also do offer, besides  
24      SFV, we offer MFV transportation rates, as well,  
25      for firm transportation services. And, as-

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1       available, which is the interruptible services  
2       that FERC would offer.

3               COMMISSIONER WOOD:   Is that also, Mr.  
4       Thomas, on the storage aspect or is that a  
5       separate?

6               MR. THOMAS:   No, we also offer a  
7       storage, we have firm rights at our storage  
8       system.   And I think in response to a question  
9       earlier from you, we also do offer an  
10      interruptible service.   It is a way, basically, to  
11      fill storage in those times when basically  
12      somebody else who has a firm right is not using  
13      it.

14              And so each and every day we actually  
15      have people who will inject gas into our system,  
16      or take it away on an interruptible basis on  
17      storage.

18              And Southern California basically  
19      operates in the same manner.

20              COMMISSIONER WOOD:   So they do have  
21      interruptible storage rights there, as well?

22              MR. THOMAS:   Right.

23              Turning to page 14, which is really our  
24      system send-out in the year 2000.   And we served  
25      almost 2.7 Bcf of gas deliveries during that year.



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1       And with about 11 percent being served into  
2       southern California.

3               And the largest market that we have  
4       right now is for power gen. In 2001 that overall  
5       demand is projected to increase to roughly 3, Bcf  
6       with almost the entirety of the increase in the  
7       power gen sector. So it's a big market and  
8       continues to grow.

9               Page 15 just highlights kind of the  
10       monthly figures. The top bar is basically the  
11       firm rights that we can offer with the capacity  
12       that we have on our system.

13              And the white in between the bars tends  
14       to be the excess or slack capacity that was not  
15       used during that time, or is forecasted not to be  
16       used during that time.

17              And this takes into account gas coming  
18       in from the Southwest, as well as gas coming from  
19       Canada.

20              And you can see all of last year we had  
21       slack capacity. In some cases probably close to  
22       25 percent. And we saw the big price run-up  
23       starting to occur in November of last year. And  
24       even during that time we still had slack capacity.

25              But since we're very tied into southern

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1 California at Topock, essentially Topock  
2 essentially represents the pricing point in many  
3 respects for all short-term supplies into  
4 California. Because that tends to be the marginal  
5 resource for our system.

6 I'll be very careful not to basically  
7 advocate positions back there because we are one  
8 of the prime movers asking the Commission to look  
9 at certain pricing issues.

10 COMMISSIONER WOOD: She's got a  
11 transcript, so, we'll just file it in the record.

12 MR. THOMAS: Page 16, essentially as we  
13 look forward what we show here is kind of our  
14 electric generation market up through this year,  
15 both on a real basis, as well as a forecast basis.

16 And as you can see there's a solid blue  
17 line down there. On average, historical average  
18 is about 700 million a day for electric  
19 generation. And in a dry year that's gone as high  
20 as 900; in a very wet year that's gone below,  
21 close to about 430, 450.

22 And this takes into account hydro  
23 conditions both in California and more  
24 importantly, in the Pacific Northwest. Because we  
25 import so much power in a very wet year.

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1                   Now, looking forward, look at this year,  
2                   we're looking at close to almost 1.25 Bcf of  
3                   electric generation requirements in our market,  
4                   which we have never ever seen before.

5                   And, of course, Pacific Northwest has  
6                   the highest -- either the driest or the second  
7                   driest hydro conditions on record.

8                   And going forward, we've done a lot of  
9                   analysis and taking out let's say the driest year  
10                  of the Pacific Northwest, we are seeing that the  
11                  conditions, we believe, will kind of vary between  
12                  roughly 700 million a day upwards to about 1.1 Bcf  
13                  of requirements for electric gen.

14                 That takes into account the new  
15                 generation, takes into account the fact that a lot  
16                 of new gen is heat rates around 7000, 7500. We  
17                 believe that the less efficient units will be  
18                 retired or replaced over time, that the volatility  
19                 will basically continue to be there.

20                 And we need to insure that we plan, not  
21                 on an average hydro year -- not really a cold year  
22                 basis, but we believe we need to take some of the  
23                 highest conditions that we see and build to  
24                 basically that level to insure that even in those  
25                 peak hydro conditions that the market has excess

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1 capacity. And it's something we're going to be  
2 pursuing with the Commission.

3 COMMISSIONER WOOD: Well, it's  
4 refreshing to hear -- and you are from the  
5 regulated pipeline side, right?

6 MR. THOMAS: That's correct.

7 COMMISSIONER WOOD: Does the other  
8 pipeline in the state share that same view?  
9 Because from --

10 MR. THOMAS: Well, I think the other  
11 pipelines, at least -- you mean in California?

12 COMMISSIONER WOOD: Yes.

13 MR. THOMAS: This is, I think, a  
14 difference that we've had actually with our  
15 friends in the south. We tend to want to build to  
16 a different standard than they want to build to.  
17 And it's something that the Commission's going to  
18 have to kind of iron out, put guidelines in place,  
19 not just for PG&E, but for the state.

20 COMMISSIONER WOOD: But, I mean are you  
21 comfortable with the Commission's revenue recovery  
22 policy on your pipeline that you would feel  
23 comfortable advocating kind of over-building  
24 and --

25 MR. THOMAS: That's --



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1                   COMMISSIONER WOOD:  -- because you're  
2                   allowed to recover that through your regulated  
3                   rates?

4                   MR. THOMAS:  That's correct.

5                   COMMISSIONER WOOD:  Do you have bypass  
6                   as much as the southern California has that  
7                   threat?

8                   MR. THOMAS:  Well, we have -- we also  
9                   serve markets both in southern California, but  
10                  also in the Bakersfield area where there are  
11                  actually other pipelines.  There's at least three  
12                  proposals now to kind of build in northern  
13                  California, and so we do have potential bypass  
14                  issues.

15                  We have California gas production that  
16                  actually generally is delivering into our system,  
17                  but also can be delivered into an industrial  
18                  customer.  And so that is a real bypass threat for  
19                  us.

20                  We don't have the same existing tariff  
21                  issues that -- the tariff that Southern California  
22                  Gas has, we don't have that in northern  
23                  California.

24                  COMMISSIONER WOOD:  What would explain  
25                  the difference between the price you get at the

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1 Malin delivery point, and -- I mean there is,  
2 although it's not as pronounced as the Topock,  
3 there still is a markup that tends to happen from  
4 the Canadian production basins to the border.

5 And what would you say would kind of  
6 explain that spread?

7 MR. THOMAS: Well, first of all, when  
8 you look at a lot of the information from the  
9 publication Gas Daily, et al, the problem you  
10 always ask, you have to ask yourself how much gas  
11 is being traded at that point.

12 And it's very thinly traded. Sometimes  
13 we call up and you might get one or two packages  
14 basically setting that price. Where you'll have  
15 10s and 50 and 100 packages --

16 COMMISSIONER WOOD: Let's say use the  
17 mid point, even the mid points are higher, though,  
18 aren't they?

19 MR. THOMAS: Correct. And the other  
20 issue is, I think just like any good marketer, you  
21 basically try to set your price. If you hold a  
22 capacity and you basically have supply you want to  
23 basically sell into the market, you're looking for  
24 where is that marginal resource.

25 And for California and for us the

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1 marginal resource is Topock. And so that's why  
2 you actually do see a price differential between  
3 Topock and Malin. And you also can look at  
4 differences between Topock PG&E and Topock  
5 southern California.

6 And generally southern California has  
7 been I want to say \$1, \$2, \$5, \$10 higher than  
8 deliveries into northern California.

9 And, again, those are issues that we  
10 have been advocating the FERC take a look at.

11 And with that, there's more material  
12 here. I'll be glad to talk to either one of you  
13 if you have further questions.

14 COMMISSIONER WOOD: I'm fascinated by  
15 this chart on page 16. So really from last summer  
16 to this coming summer, so from '99 to '01, the  
17 PG&E system saw basically almost a doubling from  
18 700 MMcf a day to 1.3 billion?

19 MR. THOMAS: Last year -- you have to  
20 take it actually up a little bit further because  
21 last year was close to probably about 900 a day.  
22 But we essentially saw almost a 35 percent --

23 COMMISSIONER WOOD: I'm sorry, I'm  
24 thinking '99 --

25 MR. THOMAS: -- increase in generation.

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1                   COMMISSIONER WOOD:  -- I'm thinking a  
2                   two-year period, so the '99 was 700, last year was  
3                   900-and-something, this present year's 1.3?

4                   MR. THOMAS:  That's correct.  We've seen  
5                   some just tremendous increases in generation.

6                   COMMISSIONER WOOD:  Is there sufficient  
7                   slack capacity in the PG&E system aggregated to  
8                   handle that basic doubling of volume?

9                   MR. THOMAS:  We have sufficient capacity  
10                  to handle the 1.3 level.  And today we're actually  
11                  burning about -- delivering about 1.2 into the  
12                  fossil power plants.  And we still have slack  
13                  capacity on the system even as we speak today.

14                  COMMISSIONER WOOD:  And so your advocacy  
15                  of expansions then would reflect the need for just  
16                  that power gen growth?

17                  MR. THOMAS:  Well, I think what we need  
18                  to plan for is to insure that this higher level is  
19                  met.  And so we'll be advocating basically to  
20                  expand our system.

21                  We already have one expansion, roughly  
22                  200 million a day.  And we'll be advocating to  
23                  expand the system probably another 100 to 150 on  
24                  top of that at a minimum.

25                  COMMISSIONER WOOD:  But you say you are



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1 handling the 1.2 today fine, is that right?

2 MR. THOMAS: Right. That's today. But  
3 we also see growth in our core demand. We also  
4 see growth in what we call non-core, non-UEG  
5 demand, as well. And so it pushes us up.

6 COMMISSIONER WOOD: So, again, just help  
7 me out here. What do you think is causing, even  
8 though your markup at Malin is lower than it is at  
9 Topock, what's causing that price at the border,  
10 the northern border of California, to be in excess  
11 of hub price plus transportation rates?

12 MR. THOMAS: Well, I still think you  
13 have to look at the Topock prices.

14 COMMISSIONER WOOD: Because it always --

15 MR. THOMAS: And that's where prices are  
16 driven in California.

17 COMMISSIONER WOOD: And so they do  
18 reflect back to the Malin price, as well. Why  
19 don't they replicate further than just California,  
20 though?

21 MR. THOMAS: We've not looked at that.  
22 I don't know. You got high demand in California  
23 obviously. We've seen prices come off  
24 dramatically since June 1st. And we don't know --  
25 we're not sure what that's a reflection of.

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1                   COMMISSIONER BROWNELL: Earlier in your  
2 presentation you referenced the difference between  
3 this kind of operating principles that you have  
4 and those in the southern part of the state, and  
5 suggested that some reconciliation of those would  
6 be, or the adoption would be a goal of yours.

7                   That's certainly a California Commission  
8 issue, but tell us what you think the impact of  
9 that would be if you brought consistency? And,  
10 Trina, if you want to comment, that's fine. I  
11 don't want to leave you out.

12                  MR. THOMAS: Well, one of the issues  
13 that we see we believe, there are a number of  
14 issues causing high prices, but one of them is the  
15 fact that when you schedule gas on a daily basis,  
16 for us people who hold firm transportation could  
17 hook up to somebody having firm transportation on  
18 the interstates, and there's a daily matching of  
19 that.

20                  What we face every day is gas moved into  
21 southern California through what we call Wheeler  
22 Ridge is, there's a windowing process that occurs.  
23 And --

24                  COMMISSIONER WOOD: A windowing?

25                  MR. THOMAS: It's called a windowing

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1 process. It's a Southern California Gas term.  
2 But they basically, let's say at the first of the  
3 month everybody can nom whatever you want to nom  
4 into that system. I think it was back on May 1st  
5 they had noms in excess of 6 tcf into a system  
6 that can only take roughly 600 million a day, or  
7 maybe 800 million a day.

8 And so they essentially then allocate  
9 that based on nominations. And so there's this  
10 constant looking at what can I really get my gas  
11 into that system, or am I going to be nom'd back.

12 El Paso and SoCalGas and Transwestern  
13 have the same issues that confront them. And so  
14 we think if you put the same type of system in  
15 southern California as in our system, you can get  
16 the interstates and the intrastates on a  
17 scheduling basis, on a daily basis, matched up  
18 much better.

19 And we believe, because I know we want  
20 to deliver more gas into southern California, we  
21 believe that would help the market, as well.

22 COMMISSIONER BROWNELL: For those of us  
23 who didn't grow up in the system, tell us the  
24 history of how two different systems evolved in  
25 the same state, a big one, of course, but two

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1 different systems.

2 MR. THOMAS: Well, for us back in -- we  
3 had probably 20 different rate proceedings that  
4 were going on back in '94 through '96, '97 --  
5 through '96 timeframe, including reasonableness  
6 issues around our Canadian gas supply; the fact  
7 that we were holding capacity on the El Paso  
8 system and we did not need it for the market  
9 anymore.

10 And so we essentially settled out  
11 roughly 20 different cases. As part of that we  
12 settled on a structure with around 25 different  
13 consumer groups and end-user representatives.

14 And so as part of that settlement that  
15 was put in place in 1998.

16 Trina, southern California?

17 MS. HORNER: SoCalGas, by contrast, as  
18 Dan said, has a system whereby they basically  
19 charge their shippers on a volumetric basis. So  
20 all their firm costs essentially are recovered on,  
21 you know, on the basis of how much gas you move.

22 And you don't have the ability to  
23 contract for a firm tradeable right the way you do  
24 on an interstate pipeline or on PG&E's system.  
25 And that is an issue that's been, right now is



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1 pending before the PUC.

2 And, you know, it's an issue that came  
3 up for us a number of years ago, and we've been  
4 looking long and hard at that. I think we were  
5 poised to make a decision in that case. And right  
6 now, you know, starting last fall when the market  
7 just absolutely went haywire with, you know,  
8 border prices up to \$60 some days, we've been  
9 really trying to be sure that any policy that we  
10 adopt for SoCalGas' system doesn't make its  
11 shippers worse off.

12 In other words, we understand that  
13 shippers probably -- certain shippers, not all of  
14 them, would like some more certainty in the  
15 ability to contract for a firm tradeable right,  
16 all the way from say Malin down through into the  
17 SoCalGas system.

18 On the other hand, we wanted to be very  
19 careful that we not throw the market, the southern  
20 California market, into more chaos by further  
21 unbundling the SoCalGas system and establishing  
22 those firm tradeable rights in a time when the  
23 system was, you know, used pretty close to a  
24 hundred percent.

25 So, it's definitely an issue that we

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1           need to sort out in California, especially now  
2           that the market is calming down.

3                       COMMISSIONER BROWNELL:   Thank you.

4                       PRESIDING MEMBER MOORE:   With your  
5           indulgence I need to interrupt Dan, if I can, and  
6           bring on, we've got two more presentations --

7                       COMMISSIONER BROWNELL:   We'll get Dan  
8           later on the infamous accords.

9                       PRESIDING MEMBER MOORE:   -- across the  
10          state. I'm sure he'd be very happy to be here.

11                      So, if I can ask the Wild Goose Storage  
12          folks to come up. And they've got about ten  
13          minutes or a little bit less. And then we'll have  
14          ten minutes for Calpine. We'll still get across  
15          this briefing in time.

16                      MR. DAVIES:   Well, thank you very much  
17          for inviting us, Commissioner Moore. And I will  
18          be brief.

19                      Let me start by telling you a little bit  
20          about Wild Goose Storage, just so you have a  
21          context for our remarks.

22                      Wild Goose Storage is a subsidiary  
23          company of Alberta Energy Company in Canada.  
24          Alberta Energy Company is Canada's largest natural  
25          gas producer, and certainly a company that's well

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1 known on this side of the border, as well.

2 It has, in the storage business, a  
3 number of investments in independent storage. The  
4 most well known facility here, of course, is Wild  
5 Goose. But the facility for which we're best  
6 known on a continental basis is the AECO facility  
7 in Alberta, which many people know is the pricing  
8 point for gas trading on the Canadian market.

9 In addition to the AECO facility and  
10 Wild Goose, we also recently purchased a small  
11 facility in Oklahoma, as well as in the last year  
12 we brought on a new facility in Alberta called the  
13 Heith facility which connects gas between the old  
14 NOVA system, now called TransCanada, and the new  
15 Alliance system.

16 So that's by way of background as to who  
17 Wild Goose is. Trina Horner, in her remarks,  
18 mentioned that we had filed an application to  
19 expand the Wild Goose facility. That application  
20 is before the Commission.

21 I'll give you an idea of the size of the  
22 expansion, again just to provide context. The  
23 current injection maximum is limited to 80 million  
24 a day, so it's quite small. We're proposing to  
25 expand that to 450 million a day.

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1           The current withdrawal is 200 a day.  
2           We're proposing to expand that to 700 a day. And  
3           the current inventory, maximum working gas, is 14  
4           Bcf, and we're proposing to expand that to 29 Bcf.

5           So that's just by way of background. I  
6           think it's common amongst -- next slide, please --  
7           common amongst everyone in the room that we have  
8           an infrastructure crisis in this state.

9           I think I would just characterize it a  
10          little differently than what most people have. I  
11          think on average the infrastructure in the state  
12          works just fine. But the average doesn't count,  
13          any more than the average counts on the freeway  
14          when you try to get home at rush hour.

15          What counts is can the state's  
16          infrastructure meet its peak demands. And we  
17          would submit that that's really what's lacking.

18          You've heard a lot of stuff on how  
19          electric demand is going to push the gas  
20          infrastructure in this state. We certainly  
21          believe that. We think it will also change the  
22          nature of the peak profile, moving it from a  
23          single to a dual peak. And that puts additional  
24          stress on all of the infrastructure that gets gas  
25          to the burner tip.



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1                   The position we take is that  
2                   curtailments can only be avoided therefore with  
3                   additional peaking infrastructure. The irony is  
4                   that on a day-to-day basis if you deaggregate the  
5                   average you'll find that there's sufficient slack  
6                   capacity within the existing infrastructure today.

7                   How does storage figure into all this?  
8                   Well, storage versus pipeline capacity is superior  
9                   in two different ways. And let me give you a  
10                  simple example.

11                 If we were to be looking at getting 500  
12                 million additional units of gas from Malin to the  
13                 PG&E load center in the Bay Area, you have  
14                 essentially two alternatives. One is to improve  
15                 the pipe all the way up to the Malin border. Or,  
16                 two, to provide some midpoint adjacent to the  
17                 citygates, midpoint storage along the way.

18                 If you are going with the former you've  
19                 got to loop the pipe at great expense all the way  
20                 up to the border. If you're going with storage,  
21                 assuming that it has ample capacity upstream of  
22                 storage to fill it during the shoulder season, all  
23                 you need to do to provide capacity to meet the  
24                 winter or summer peak is to increase the capacity  
25                 from the storage point to the load center.

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1                   So depending upon where your storage is  
2                   located, if it's relatively close to the load  
3                   center, improving storage gives you peak  
4                   deliverability at a much more economically  
5                   efficient basis than looping the pipe.

6                   The second thing is that it's more  
7                   reliable. It won't be diverted by upstream  
8                   markets. And it's less at risk for facility  
9                   outages. It's adjacent to the load center.

10                  So, the other benefits of storage, which  
11                  again are systemic, they spread over all users of  
12                  the system, is that as storage customers sell into  
13                  peak markets you're dampening the price. We have  
14                  a study which we've submitted with our application  
15                  which demonstrates very significant systemic  
16                  benefits. And if the Commissioners would like  
17                  copies of that report I can make it available.

18                  COMMISSIONER BROWNELL: We would.

19                  MR. DAVIES: Thank you. I'll then skip  
20                  over to the next slide, titled, to encourage  
21                  storage development.

22                  First of all, don't rebundle, don't  
23                  rebundle. If you do that you'll kill independent  
24                  storage. There are far too many cross-subsidies  
25                  that get in play for independent storage to have a

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1           hope of surviving in a rebundled environment.

2                       COMMISSIONER WOOD:   Is there a push to  
3           rebundle?

4                       MR. DAVIES:   Pardon me?

5                       COMMISSIONER WOOD:   Is there a push  
6           anywhere to rebundle?

7                       MR. DAVIES:   Well, one case in point, we  
8           looked at the draft report that Commissioner  
9           Moore's Committee has just put out, and the only  
10          thing we disagreed with in the whole piece was  
11          their position on rebundling.

12                      The problem with rebundling is, of  
13          course, you kill the independent storage. And  
14          with it, you kill the pricing signals that are  
15          going into the market to improve the  
16          infrastructure, et cetera.

17                      I also would take issue with some of the  
18          characterization of last summer. I think we have  
19          to realize that last summer was a collision; it  
20          was almost the "perfect storm" and that carried  
21          into the winter, as well.

22                      First of all, as you know and will come  
23          to know even more, the natural gas market  
24          functions as a continental market made up of  
25          several regional markets, of which California is

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1           one.

2                       I think on a continental basis the  
3           market is working well. In this region we have  
4           some challenges which I suspect are unique to this  
5           region.

6                       First of all, we've had phenomenal  
7           growth in this state, and it's been year after  
8           year after year of growth. Not the least of which  
9           is the electrical demand. And that's used up any  
10          slack capacity that's been in the system.

11                      The other effect that's had, and this  
12          goes back to economics 101, I mean when you've got  
13          inelastic supply, you're getting as much gas as  
14          you can as possible, and inelastic demand on the  
15          other hand, when those two cross you get  
16          exponential pricing, which is what we saw.

17                      So what you're seeing in this market is  
18          a classic case of insufficient delivery to a  
19          market that has to have gas, has to have the gas.  
20          And that's what's driven the whole problem.

21                      Now, it was made worse, I said it was a  
22          perfect storm because, of course, we had a supply  
23          constraint due to the El Paso explosion. We had  
24          new transmission capacity come on line from  
25          western Canada, so that this market had to compete



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1       with the midwest market for gas, which was a new  
2       phenomenon that hasn't yet found its way through  
3       the market.

4               And in addition to that, the northwest  
5       had an unseasonably cold and dry winter which  
6       caused significant upstream diversions to happen.  
7       As I say, all of which conspired to create the  
8       "perfect storm."

9               We submit that the answer to that, in  
10      part, is to encourage additional storage  
11      development.

12              I'm going to flip ahead here because my  
13      friends from Calpine deserve time, as well, here.  
14      So I'll go to the third-to-last slide, if I may.  
15      Insure utilities have the incentive. And my point  
16      here is that what independent storage needs to  
17      thrive is to connect to a backbone system which  
18      can take the gas during the withdrawal peak and  
19      can deliver the gas to the storage system in  
20      sufficient quantities to refill storage during the  
21      lulls in the system.

22              So we need backbone system. We need no  
23      discriminatory tolls imposed on independent  
24      customers. And we need to insure, in fairness to  
25      the utility, that it's given fair cost recovery

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1       for doing all of that. All of those are  
2       challenges that I think lay ahead of us in this  
3       jurisdiction.

4               Next slide, please. I think the other  
5       things that help encourage storage development  
6       would be to allow independent storage to compete  
7       for core businesses, as well as to provide  
8       balancing services to transmission customers.

9               The other point that I think we should  
10       make is that there are significant barriers to  
11       entry for storage, one of which is a second  
12       eminent domain hearing that's required. Our  
13       planning process tells us to expect six to eight  
14       months after getting a CPCN to go through that  
15       process if there's hostile landowner reaction to  
16       the CPCN.

17              And that, you know, that just delays the  
18       misery in not getting peaking facilities on the  
19       market.

20              Also, we feel that you could reduce  
21       another barrier to entry by reducing the lag  
22       associated with requiring expansions of an  
23       existing facility within an existing CPCN. And we  
24       would submit that so long as the CEQA, the  
25       California Environmental Quality Act, as long as

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1       the process that is envisaged by that legislation  
2       is followed, then that's all that need be looked  
3       at.

4               Finally, I think one thing that is very  
5       important and very much in your court and in other  
6       governmental agencies' courts is to create a  
7       climate of political and regulatory certainty.

8               Infrastructure improvements require  
9       significant capital investment, significant risk  
10      for shareholders. Most energy companies with  
11      which I'm familiar are not opportunity  
12      constrained, they're resource constrained.

13              Capital within any company has to  
14      compete for alternative markets. All of us have  
15      our pet projects. The one that gets approved is  
16      going to be the one that offers the best risk  
17      versus reward type of equation. And political  
18      risk and regulatory risk are two of those factors  
19      that have to be addressed, as well.

20              COMMISSIONER WOOD: Your segment is so  
21      critical to kind of the overall solution here,  
22      that it's funny to think ten years ago I don't  
23      even know that there was any independent storage  
24      anywhere.

25              MR. DAVIES: Storage was part of the

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1           bundled system until fairly recently.

2                   COMMISSIONER WOOD:   Yeah, and so when  
3           they unbundled them in the federal level at 636  
4           order, in subsequent actions I guess at different  
5           state levels, that's when a lot of this really  
6           popped out of the box.

7                   MR. DAVIES:   I think it's important for  
8           me just to characterize one thing before I turn it  
9           over to Calpine, and that is that this Commission  
10          has been very aggressive in pushing independent  
11          storage.   And we've had a very good reception, not  
12          only to our first application, but so far to our  
13          second application.

14                   And the Lodi folks, who have another  
15          facility, found the same thing.   So, --

16                   COMMISSIONER WOOD:   While I've got you  
17          here, was your storage fully injected as of last  
18          November?

19                   MR. DAVIES:   Was it --

20                   COMMISSIONER WOOD:   Fully utilized?   Was  
21          it filled up?

22                   MR. DAVIES:   No, actually we were under-  
23          utilized last year.   And we found that the storage  
24          market woke up, the customers --

25                   COMMISSIONER WOOD:   Because everyone



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1           thought that \$5 gas was so expensive they never  
2           injected it?

3                     MR. DAVIES:   There were some pretty  
4           confused pricing signals in the market last  
5           summer.   You know, anybody who had gas in storage  
6           last summer was looking forward to winter where  
7           his gas, at least when he was looking forward from  
8           the summer, his was worth less in the winter than  
9           it was in the summer.

10                    COMMISSIONER WOOD:   Yeah, what are you  
11           seeing as of up to today?

12                    MR. DAVIES:   What are we seeing?

13                    COMMISSIONER WOOD:   Injections --

14                    MR. DAVIES:   We've had two open seasons.  
15           One to sell out the base project, and two to take  
16           expressions of interest in the expanded project.  
17           And we've sold out each of those.

18                    COMMISSIONER WOOD:   But as far as, I'm  
19           sorry, current month activity.   Are you injecting  
20           pretty heavily now?

21                    MR. DAVIES:   Yes.   Yes.   We're ahead of  
22           where we've been in the past in injections.   In  
23           fact, that's true over the continent.   The AJ  
24           numbers indicate that there's --

25                    COMMISSIONER WOOD:   Yeah, this last week

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1       has really knocked the top out of the gas price.  
2       Well, that's what storage is for.

3               MR. DAVIES: Thank you very much.

4               COMMISSIONER WOOD: Thank you,  
5       appreciate it.

6               PRESIDING MEMBER MOORE: Commissioners,  
7       our last presentation is from Calpine with Ron  
8       Walter and Craig Chancellor, who would like to  
9       talk to you about their stuff. And then we'll  
10      call that a wrap on the day. Thank you.

11              MR. WALTER: Thanks, Commissioners. My  
12      name's Ron Walter, Senior Vice President and one  
13      of the founders of Calpine Corporation.

14              As you know, we're a power generation  
15      company, but we're here today to talk for a few  
16      minutes about an exciting new gas pipeline project  
17      that we're involved with.

18              As sort of a backdrop I wanted to let  
19      you know that Calpine, we've been in business  
20      since 1984. We are in the business of building,  
21      owning, operating natural gas fired power plants,  
22      as well as geothermal. We're the largest  
23      geothermal generator in the world. And that  
24      happens to be, fortunately for Californians, here  
25      in California.

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1           Today we have a very big program going  
2           on throughout the country to build new gas-fired  
3           generation. We're on a pace to build 70,000  
4           megawatts of new generation by 2005. That's  
5           enough for 70 million households. It will make us  
6           the largest generator in the country.

7           Today we have 40,000 megawatts that is  
8           either in operation, under construction or  
9           announced and about to go into construction. This  
10          is the largest construction program for power  
11          plants in the history of the world.

12          We not only are working here in  
13          California, but in 30 different states. I was  
14          thinking back today, the first two power plants we  
15          decided to build when we launched this program  
16          were the Pasadena Plant in Texas and the Sutter  
17          Power Plant here in California.

18          Pasadena went on line, as you know,  
19          Commissioner Wood, last summer. And Sutter, cross  
20          our fingers, is in its final testing. It will go  
21          on line July 2nd, and provide about 550 new  
22          megawatts for California.

23          The next slide, just to take a couple  
24          minutes before I turn it over to Craig -- back one  
25          slide, please. This slide didn't get in there,

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1           that's fine, you have a copy of it there.

2                       We've embarked on a program in  
3           California to build approximately 12,000 megawatts  
4           a year in this state or accessible to this state.  
5           Today we have 1300 megawatts in operation. About  
6           3000 megawatts under construction. And some of  
7           those will go on line, as I said, this summer.  
8           And an announced additional 4000.

9                       This will be a \$6 billion program as an  
10          independent power company that we're investing in  
11          this state. And by 2005 we'll be able to supply  
12          12 million households in California.

13                      This is going to take a lot of gas. And  
14          in 2005 we'll consume, as a company in California,  
15          2 Bcf. And so there's a tremendous need for us to  
16          be --

17                      COMMISSIONER BROWNELL: Could you say  
18          that again?

19                      MR. WALTER: About 2 Bcf a day.

20                      COMMISSIONER WOOD: Now that compares to  
21          Dan's slide from before that the PG&E backbone  
22          through-put today is right at 1 Bcf. So you're  
23          saying you would double what PG&E uses today?

24                      MR. WALTER: That's right. That's  
25          right.



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1                   COMMISSIONER WOOD:   Just for the Calpine  
2                   fleet?

3                   MR. WALTER:   That's for the Calpine  
4                   fleet.

5                   So, to tell you one way that we're  
6                   embarking on to help provide that additional  
7                   infrastructure, I wanted to ask Craig Chancellor,  
8                   who manages our gas regulatory affairs, to talk  
9                   about the Sonoran Pipeline.

10                  MR. CHANCELLOR:   Now if you'll jump  
11                  right to slide 7.   Our approach for Calpine in  
12                  managing our fuel is what you've heard here is  
13                  more of a portfolio approach.   We're investing not  
14                  only in gas reserves here in California, we're  
15                  also investing in pipeline infrastructure.

16                  And slide number eight here really does  
17                  show what we're doing relative to backing up our  
18                  investment in the power plant side with an  
19                  investment in pipeline into California.

20                  We're partnering up with Kinder Morgan  
21                  on a 50/50 joint venture to build a pipeline from  
22                  San Juan Basin Blanco all the way up to the Bay  
23                  Area.

24                  We're proposing this in two phases.   The  
25                  first phase is about 750 a day going to the

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1 border. And then 1 Bcf to 1.5 Bcf going north.  
2 That's for a couple of reasons. One is in the,  
3 what we see as also a lack of capacity within the  
4 state that's necessary.

5 There's additional capacity expansions  
6 being announced in progress through Kern, El Paso,  
7 Transwestern. So we'll have additional capacity  
8 to move up north.

9 COMMISSIONER WOOD: I'm sorry, what were  
10 the interstate was how much capacity?

11 MR. CHANCELLOR: Within the state it  
12 will be about 1 Bcf to 1.5 Bcf. We've got  
13 interest so far of 1.5 Bcf within California.

14 COMMISSIONER WOOD: And then up to  
15 California?

16 MR. CHANCELLOR: 750. We have interest  
17 of 1 Bcf on that side right now.

18 The open season has been completed and  
19 we're going through the process right now to  
20 finalize the bidding process, to secure up the  
21 bids. The way the open season process works, you  
22 don't always get the perfect bids. You put out  
23 your parameters, and the market then comes back  
24 with what they're looking for.

25 So we're working with customers right

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1       now to firm those up. We look to do that in the  
2       next 30 to 60 days. And then have a filing that  
3       we can make to FERC at the end of this year. With  
4       the first gas flowing, at least on phase one, in  
5       2003; phase two, 2004.

6               COMMISSIONER WOOD: Is phase one -- let  
7       me go back to your -- so phase one is the out-of-  
8       state?

9               MR. CHANCELLOR: Right, from the Basin  
10      to the border.

11              COMMISSIONER WOOD: Okay.

12              MR. CHANCELLOR: The benefits we feel --  
13      there's some detail in here, and we can certainly  
14      get you a lot more detail on this as it moves  
15      forward -- if you switch to slide 11, the benefits  
16      we see from this, you've heard that infrastructure  
17      is needed. We agree with Wild Goose, that storage  
18      is part of that.

19              We also say that basic pipeline is  
20      needed to fill that storage. And to meet our  
21      needs, as well as the rest of the market.

22              We see that capacity provide a benefit  
23      of moderating that gas price. That's the big  
24      benefit. It allows us to secure long, firm  
25      transportation to match with the long-term

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1 contracts that we're doing on the power side.

2 We want to make sure that, you know,  
3 these commitments that we've made to the state,  
4 that we can back up by having a gas supply there  
5 and available.

6 COMMISSIONER WOOD: What drove your  
7 choice on build it yourself versus buy it from, or  
8 lease it from one of the incumbents?

9 MR. CHANCELLOR: Several things. Within  
10 the state right now, I mean you've got SoCalGas,  
11 you've got PG&E. A lot of our capacity we're  
12 building power generation is in the northern side  
13 of the state. And there are certain regulatory  
14 hurdles. Right now we can't get capacity. We're  
15 participating in PG&E's open season, but you can't  
16 get capacity beyond 2002.

17 The rate certainty is unsure. And their  
18 expansion is going to be from the north, not from  
19 the south. And we want to have gas competition  
20 from both sides, from both Canada and from the  
21 Southwest.

22 COMMISSIONER WOOD: You're not building  
23 from the north. Is --

24 MR. CHANCELLOR: No.

25 COMMISSIONER WOOD: -- that because of



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1           what we just heard from Dan that they're planning  
2           on building, themselves, to --

3                       MR. CHANCELLOR:   Yeah, PGT Northwest,  
4           the affiliate, has done expansions.   And we've  
5           participated in that.   And also PG&E can easily  
6           expand it, and quite inexpensively, by at least  
7           200 a day.

8                       COMMISSIONER WOOD:   So would Calpine  
9           then retain firm transmission rights to both  
10          production basins?

11                      MR. CHANCELLOR:   Yes.   Yes.   We already  
12          hold transmission rights on the Redwood Path.   We  
13          plan on participating again for capacity coming  
14          from Canada.

15                      We have reserves in Canada that we have  
16          purchased that we would like to move south.

17                      So we look at this as a way, it's not  
18          the total solution, it's part of the solution.  
19          There's a lot of gas demand we see coming on, not  
20          just looking at Calpine, alone.

21                      This pipeline, itself, will not meet all  
22          of our demand.   And we don't intend it to.   Again,  
23          we want to make sure we have a diverse portfolio.  
24          Storage; gas from Canada; gas from the Rockies;  
25          gas from these other pipelines.

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1                   One thing the Sonoran does it brings in  
2                   an additional competitor. It's not just an  
3                   expansion of an existing system. It brings in  
4                   another competitor that will help modify not only  
5                   the gas prices, but the transportation prices in  
6                   the long term.

7                   COMMISSIONER WOOD: Thank you.

8                   MR. CHANCELLOR: Thank you very much.

9                   COMMISSIONER BROWNELL: Anything that we  
10                  can do, or either of the California Commissions  
11                  can and should do to make your lives easier?

12                  MR. CHANCELLOR: Yes, one thing, and  
13                  we've been to the FERC Staff talking to them, one  
14                  thing we're looking at is trying, because of the  
15                  different environmental requirements between  
16                  California and the CEQA process, and what's going  
17                  to be occurring on phase one, we'd like to come in  
18                  and phase the environmental aspect of it.

19                  I mean this is a large piece of pipe.  
20                  Instead of just having all the environmental, we'd  
21                  like a PDA early on, on the project, and then  
22                  phase the two environmental aspects of it, if  
23                  possible.

24                  COMMISSIONER BROWNELL: Great, thanks.

25                  MR. CHANCELLOR: Still working with

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1       staff to try to figure out the best way to do  
2       that.

3               COMMISSIONER WOOD:   Great.

4               COMMISSIONER BROWNELL:   Thank you.

5               PRESIDING MEMBER MOORE:   Thank you very  
6       much.

7               Commissioners, as far as the prepared  
8       presentations and the remarks of the staff, I have  
9       to say we're at a conclusion point.   And I know  
10      that time is very dear at this point.

11              So, obviously, Commissioner, the floor  
12      is yours.   But on behalf of the California  
13      Commission, both Commissions, I would say I'm so  
14      glad you came and we're honored to have had you  
15      and your attention on this.   And stand ready to do  
16      it again whenever you'd like.

17              COMMISSIONER WOOD:   Well, to quote  
18      another Californian, "We'll be back."

19              COMMISSIONER BROWNELL:   I've said that,  
20      I'm not a Californian.

21              COMMISSIONER WOOD:   Arnold.   I want to  
22      thank you, Michal, for your hospitality and that  
23      of your colleagues and the staff here at the  
24      Commission for letting us come in and exercise a  
25      little squatter's rights for a day.   And thank

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1       this gentlewoman for the transcription, which will  
2       keep us legal back at our home shop.

3               I want to also recognize with us Cindy  
4       Marlette is Deputy General Counsel of the FERC.  
5       And Bob McNally from the National Energy Council  
6       at the White House is here to kind of listen and  
7       learn. As the President met with Governor Davis a  
8       few weeks ago, and I think they both agreed that  
9       the gas transportation issue was something of  
10      concern. And we aren't to the bottom of it yet,  
11      but today's hearing helped us get some issues  
12      framed from some of you all here.

13             We certainly heard a lot from our own  
14      staffs and from talking to the staffs of other  
15      agencies, as well. But, you know, this is kind of  
16      a critical piece. Our job is to solve problems,  
17      and I think we've found one.

18             Certainly when you look at the map of  
19      the United States and you see well, where are the  
20      gas prices unusually high. They happen to be at  
21      the northern border of California, and even moreso  
22      at the southern border of California.

23             And there may be other issues, but  
24      certainly hearing today infrastructure is a big  
25      one. And we want to kind of look deeply into that



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1           issue and see what we can do from our side.

2           Clearly we got a nice task list here.

3                       I know from talking to President Lynch  
4           and from Trina, appreciate you all being here  
5           today, as well, know you all have got an  
6           aggressive punchlist there.

7                       And certainly from reading the report  
8           that started all this interest in the visit from  
9           you, Michal, you all have got a punchlist to do,  
10          too.

11                      So, we look forward to us working  
12          together to get these problems solved so that your  
13          customers can get the benefits of the competitive  
14          world they were promised.

15                      COMMISSIONER BROWNELL: I can hardly add  
16          to that eloquent statement, other than to say,  
17          Michal, thank you. This has been enormously  
18          helpful. Thanks to the Commission and many of our  
19          hosts today. And thanks for all of you who  
20          participated.

21                      These are difficult issues, and you're  
22          all challenged with implementing business plans  
23          that require regulatory certainty. And frankly,  
24          regulatory cooperation. We all have a role to  
25          play. And one of our goals here is to establish a

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1 partnership with the Commissions and with the  
2 state, so that we're clear and we're all marching  
3 to the same drummer.

4 We cannot let the crisis consume us to  
5 the extent that we do not look at longer term  
6 issues. These are long-term economic development  
7 issues and we need to start focusing on the  
8 solutions so that not only can we bring the  
9 benefits of competition, we can surely commit to  
10 being able to support the enormous growth that  
11 California has enjoyed, but, indeed, that the  
12 region has enjoyed and should enjoy. So, thank  
13 you, and I look forward to coming back.

14 PRESIDING MEMBER MOORE: You will be  
15 welcome when you do. Thank you very much.

16 COMMISSIONER WOOD: If anybody has any  
17 further comments they'd like to provide in writing  
18 to the Commission, our street address is 888 First  
19 Street, N.E., Washington, D.C. 20426. And we  
20 would love to read anything you got.

21 PRESIDING MEMBER MOORE: Thank you,  
22 Commissioners.

23 COMMISSIONER WOOD: Thank you, all.

24 (Whereupon, at 5:25 p.m., the meeting  
25 was adjourned.

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## CERTIFICATE OF REPORTER

I, VALORIE PHILLIPS, an Electronic Reporter, do hereby certify that I am a disinterested person herein; that I recorded the foregoing California Energy Commission Meeting; that it was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for any of the parties to said meeting, nor in any way interested in outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 26th day of June, 2001.

VALORIE PHILLIPS

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